TOWN OF DENTON, MARYLAND

FINANCIAL REPORT

As of and for the Year Ended June 30, 2014

And Report of Independent Auditor



TOWN OF DENTON, MARYLAND

TOWN COUNCIL

Dennis D. Porter, Mayor

Abigail McNinch Tara Lightner

Robert L. Clendaniel Lester L. Branson

OTHER ADMINISTRATORS

Donald H. Mulrine – Town Administrator

Karen L. Monteith, Clerk – Treasurer

Vacant - Director of Planning & Codes

Rodney R. Cox – Chief of Police

Philip E. Clark, Sr. - Superintendent of Public Works

Mark Chandler – Superintendent of Water & Wastewater Operations

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Report of Independent Auditor

To the Council of the Town of Denton Denton, Maryland

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Denton, Maryland (the "Town") as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Town's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town as of June 30, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matter

As discussed in Note 1 to the basic financial statements, the Town adopted the provisions of Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*, effective July 1, 2013. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The Combining Statements and Other Supplementary Information sections are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Combining Statements and Other Supplementary Information sections are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Combining Statements and Other Supplementary Information are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2014, on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town's internal control over financial reporting and compliance.

Richmond, Virginia October 31, 2014

Cheny Behnut CCP

As management of the Town of Denton, Maryland (the "Town"), we offer readers of the Town's financial statements, this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2014. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Town's financial statements, which follow this narrative.

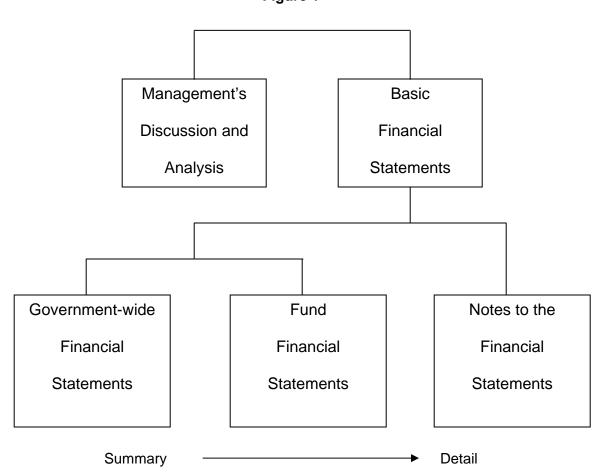
Financial Highlights

- The assets of the Town exceeded its liabilities at the close of the fiscal year by \$25,506,495.
- The government's total net position increased by \$627,812 primarily due to an increase in the governmental activities' net position.
- As of the close of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$2,433,439, an increase of \$70,323 during the year.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$1,786,875, or 64% of total General Fund expenditures for the fiscal year.
- The Town's total debt decreased by \$182,973, or 3% during the current fiscal year.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Town's basic financial statements. The Town's basic financial statements consist of three components; 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements (see Figure 1). The basic financial statements present two different views of the Town through the use of government-wide statements and fund financial statements.

Required Components of Annual Financial Report Figure 1



Basic Financial Statements

The Town's financial statements present a focus on the Town as a whole (government-wide) as well as the major individual funds. The government-wide financial statements provide both long-term and short-term information about the Town's overall financial status. The fund financial statements focus on the individual parts of the Town government, reporting the operations of the Town in more detail than the government-wide statements. Both perspectives, government-wide and individual fund, allow the user to address relevant questions, broaden the basis for comparisons, year to year or government to government, and enhance the Town's accountability.

The next section of the basic financial statements is the notes. The notes to the financial statements explain in detail some of the data contained in those statements.

Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the Town's finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide short and long-term information about the Town's financial status as a whole.

The two government-wide statements report the Town's net position and how it has changed. Net position is the difference between the Town's total assets and total liabilities. Measuring net position is one way to measure the Town's financial condition.

The government-wide statements are divided into two categories: 1) governmental activities and 2) business-type activities. The governmental activities include most of the Town's basic services such as public safety, cultural and recreational, and general administration. Property taxes and state and federal grant funds finance most of these activities. The business-type activities are those that the Town charges customers to provide such as the water and sewer services offered by the Town.

Fund Financial Statements

Fund financial statements provide more detailed information of the Town's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town, like all other governmental entities in Maryland, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the general statutes or the Town's budget ordinance. All of the funds of the Town can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds – Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the Town's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using *modified accrual accounting*, which provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps them determine if there are more or less financial resources available to finance the Town's programs. The relationship between government activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is described in a reconciliation that is part of the fund financial statements.

The Town legally adopts an annual budget for its General Fund that incorporates input from the citizens of the Town, the management of the Town, and the decisions of the Council about which services to provide and how to pay for them. It also authorizes the Town to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the Town complied with the budget ordinance and whether or not the Town succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement is presented using the same format, language, and classifications as the Statement of Revenues, Expenditures and Changes in Fund Balances. The statement shows four columns: 1) the original budget as adopted by the Town Council; 2) the final budget as amended by the Town Council; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the variance between the final budget and the actual resources and charges.

Proprietary Funds – The Town uses enterprise funds to account for its water, sewer and industrial park activities. These funds are the same as those functions shown in the business-type activities in the Statement of Net Position and the Statement of Activities.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Government-Wide Financial Analysis

The Town presents its financial statements in accordance with accounting principles generally accepted in the United States of America. Prior year information is shown in a comparative analysis of government-wide information.

The Town's Net Position (in thousands):

Figure 2

		imental vities		ss-type vities	To	tal
	2014	2013	2014	2013	2014	2013
Assets		-	-			
Current and other assets	\$ 3,720	\$ 3,714	\$ 1,602	\$ 1,575	\$ 5,322	\$ 5,289
Capital assets	13,112	12,265	13,771	14,165	26,883	26,430
Total assets	16,832	15,979	15,373	15,740	32,205	31,719
Liabilities						
Accounts payable and other						
current liabilities	107	90	20	48	127	138
Long-term liabilities	3,777	3,814	2,794	2,888	6,571	6,702
Total liabilities	3,884	3,904	2,814	2,936	6,698	6,840
Net Position						
Net invested in capital assets	9,477	8,593	11,394	11,699	20,871	20,292
Restricted	818	897	86	86	904	983
Unrestricted	2,653	2,585	1,079	1,018	3,732	3,603
Total net position	\$ 12,948	\$ 12,075	\$ 12,559	\$ 12,803	\$ 25,507	\$ 24,878

Net position can serve over time as a useful indicator of a government's financial condition. The assets of the Town exceeded liabilities by \$25,506,495 as of June 30, 2014. The Town's net position increased by \$627,812 for the fiscal year ended June 30, 2014. The increase in the Town's total unrestricted governmental net position is due to a combination of increased tax revenues and the continued investment in capital assets from grant funds.

The Town's Changes in Net Position (in thousands): Figure 3

	Gove	rnmental	Busine	ss-type		
	Ac	tivities	Activ	vities	To	tal
	2014	2013	2014	2013	2014	2013
Revenues:						
Program revenues:						
Charges for services	\$ 180	\$ 195	\$ 1,584	\$ 1,524	\$ 1,764	\$ 1,719
Operating grants and contributions	637	340	20	2	657	342
Capital grants and contributions	-	115	-	-	-	115
General Revenues:						
Property taxes	2,499	2,377	-	-	2,499	2,377
Other taxes	390	285	-	-	390	285
Other	476	438	1	1	477	439
Total revenues	4,182	3,750	1,605	1,527	5,787	5,277
Expenses:						
General government	386	318	-	-	386	318
Public safety	1,771	1,571	-	-	1,771	1,571
Public works	537	656	-	-	537	656
Recreation and culture	268	138	-	-	268	138
Urban development and housing	189	382	-	-	189	382
Economic development	52	52	-	-	52	52
Interest on long-term debt	88	100	-	-	88	100
Retirement payment	18	17	-	-	18	17
Water	-	-	543	554	543	554
Sewer	-	-	1,306	1,242	1,306	1,242
Total expenses	3,309	3,234	1,849	1,796	5,158	5,030
Increase (decrese) in net position						
before transfers and contributions	873	516	(244)	(269)	629	247
Capital contributions			<u> </u>	661		661
Increase (decrease) in net position	873	516	(244)	392	629	908
Net position July 1	12,075	11,559	12,803	12,411	24,878	23,970
Net position June 30	\$ 12,948	\$ 12,075	\$ 12,559	\$ 12,803	\$ 25,507	\$ 24,878

Governmental Activities: Governmental activities increased the Town's net position by \$872,386. The key elements to this increase are an increase in property and other taxes due to commercial development and increased grant funding received in the current year.

Business-type Activities: Business-type activities decreased the Town's net position by \$244,574.

Key factors related to the current year performance of the Town's enterprise funds were:

- The Denton Public Works Department continued work to replace water meters which were not working.
- The total number of users increased from 1,655 to 1,658, adding 3 new properties from the prior year for a .002% increase.
- Water and sewer quarterly base fees remained at \$25.00 in fiscal year 2014. The water usage rate of \$3.45 per 1,000 gallons and the sewer rates of \$6.41 per 1,000 gallons remained unchanged from the prior year.

Financial Analysis of the Town's Funds

As noted earlier, the Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds: The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the Town's financing requirements. Specifically, unreserved fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

The General Fund is the chief operating fund of the Town. At the end of the current fiscal year, the total fund balance of the General Fund was mainly comprised of the unassigned fund balance in the amount of \$1,786,875. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents approximately 66% of total General Fund expenditures. In the prior year, \$1,407,195 of the \$1,407,470 fund balance of the General Fund was comprised of the unassigned fund balance. Contributing factors in the change in the General Fund unassigned fund balance include an increase in tax revenues, new commercial development fees, and loan revenues received for the property acquisition.

At June 30, 2014, the governmental funds of the Town reported a combined fund balance of \$2,433,439, an increase of \$70,323 from the prior year. Included in this change in fund balance is an increase in commercial economic development and property acquisition, and refinancing of existing debt.

General Fund Budgetary Highlights: During the fiscal year, the Town revised the originally adopted budget. Generally, budget amendments fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to recognize new funding amounts from external sources, such as federal and state grants; and 3) increases in appropriations that become necessary to maintain services.

Increases in revenues more than offset the increase in expenditures, which contributed to the increase in fund balance.

During the FY2014 tax year, revenues increased over FY2013 based on the tax assessments of property values primarily for the new construction for Wal-Mart. However, the properties located within the Town were reassessed in December 2010, at which time the values dropped significantly due to the stressful economy which continues to have an effect on the real estate tax revenues actually received in FY2014 compared to prior years. The property values were reassessed in December 2013.

The Town continues to work towards maintaining a 15% fund balance, reducing expenditures significantly in FY 2014 and maintaining real estate tax rates at \$.68/\$100 of assessed value. The State of Maryland's cuts to the highway fund revenues by 90% and cuts to the State Police Aid of 35%, continue to affect the Town's General Fund reserve to cover this loss of revenues. The State provided a one-time grant in FY2014.

Proprietary Funds. The Town's proprietary funds provide the same type of information found in the government-wide statements, but in more detail. Unrestricted net position of the Water, Sewer, and Industrial Park funds at the end of the fiscal year amounted to \$254,148, \$811,765 and \$12,930, respectively. The changes in net position for the funds were \$90,337, (\$334,925), and \$14 respectively. Other factors concerning the finances of these funds have already been addressed in the discussion of the Town's business-type activities.

The Denton Utility Commission 2010 Water and Sewer rate study was updated by MCET, and the Town continues to use this study to assist in establishing a rate structure for future years.

Capital Asset and Debt Administration

Capital Assets. The Town's investment in capital assets for its governmental and business—type activities as of June 30, 2014, totals \$26,883,099 (net of accumulated depreciation), a net increase of \$452,910 or 2% over prior year. These assets include buildings, roads and bridges, land, machinery and equipment, park facilities, vehicles, and construction in progress.

Major capital asset transactions during the year include the following additions:

- Completion of phase 1 of the Caroline Culinary School; phase 2 is scheduled for completion in FY15.
- Continued progress on the new Town Hall municipal building; expected completion in FY15.

The following is a summary of capital assets at June 30, 2014 and 2013:

The Town's Capital Assets (in thousands): (net of accumulated depreciation)

Figure 4

	Governme			mental Business-ty				pe				
	Activities				Activities				Total			
	2	2014		2013		2014		2013	2014		2013	
Land	\$	895	\$	895	\$	-	\$	-	\$	895	\$	895
Land improvements		484		555		-		-		484		555
Buildings		1,618		1,684		-		-		-		-
Infrastructure		8,943		7,533		-		-		-		-
Equipment and vehicles		388		400		47		48		-		-
Water system		-		-		2,987		3,073		2,987		3,073
Sewer system		-		-	1	0,737		6,330	1	0,737		6,330
Construction in progress		784		1,198			4,714			784		5,912
Total	\$ ^	13,112	\$ 1	\$ 12,265		3,771	\$	14,165	\$ 2	26,883	\$ 2	26,430

Additional information on the Town's capital assets can be found in Note 6 of the Basic Financial Statements.

Long-term Debt. As of June 30, 2014, the Town had total debt outstanding of \$6,381,487. All bonded debt and notes are backed by the full faith and credit of the Town. The total bonded debt decreased by \$182,973. Details by type of debt are presented in the following table:

The Town's Outstanding Debt (in thousands): General Obligation Bonds and Notes

Figure 5

	Govern Activ			ss-type vities	Total		
	2014	2013	2014	2013	2014	2013	
Bonds and notes	\$ 3,574	\$ 3,669	\$ 2,746	\$ 2,835	\$ 6,320	\$ 6,504	
Capital leases	61	2			61	2	
Total	\$ 3,635	\$ 3,671	\$ 2,746	\$ 2,835	\$ 6,381	\$ 6,506	

New debt for the fiscal year ended June 30, 2014 resulted from new installment notes issued to purchase new police cars.

Additional information regarding the Town's long-term debt can be found in Note 7 of this report.

Economic Factors and Next Year's Budgets and Rates

The following key economic indicators reflect the opportunities and challenges of the Town.

- Unemployment. The Caroline County unemployment rate decreased from 8.8% in FY2013 to 7.3% in FY2014. This is above the State average of 5.8% and comparable to the US average of 6.3% (as of July 2014).
- State revenue cutbacks. The State of Maryland initiated drastic cutbacks for FY2010 for the gasoline tax and police aid revenues that are shared with localities. These cuts continued into FY2014; however the Town did receive a grant from the State of ~\$96,000 In FY14 and a minor increase in the state police aid grant. The reduction in State-shared revenues will continue into FY2015, however the Town anticipates being awarded another one-time grant in FY2015.

Requests for Information

This report is designed to provide an overview of the Town's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Director of Finance, Town, 4 N. 2nd St., Denton, MD 21629.

Town of Denton, Maryland Statement of Net Position June 30, 2014

		overnmental Activities	Вι	usiness-type Activities		Total Reporting Unit		
Assets	<u></u>	_		_		_		
Cash and cash equivalents	\$	2,391,397	\$	757,229	\$	3,148,626		
Receivables (net of allowance								
for uncollectibles)		39,954		408,557		448,511		
Due from other governments		85,391		-		85,391		
Loans receivable		818,112		-	818,112			
Internal balances		18,543		(18,543)		-		
Land held for resale		366,520		455,171		821,691		
Land		895,372		-		895,372		
Construction in progress		783,229		-		783,229		
Other capital assets, net of								
accumulated depreciation		11,433,669		13,770,829		25,204,498		
Total assets		16,832,187		15,373,243		32,205,430		
Liabilities								
Accounts payable and other								
current liabilities		107,261		20,531		127,792		
Long-term liabilities:		·		·				
Due within one year		180,766		138,840		319,606		
Due in more than one year		3,596,416		2,655,121		6,251,537		
Total liabilities		3,884,443		2,814,492		6,698,935		
Net position								
Net investment in capital assets		9,476,875		11,393,587		20,870,462		
Restricted		818,112		86,321		904,433		
Unrestricted		2,652,757		1,078,843	•			
Total net position	\$	12,947,744	\$	12,558,751	\$	25,506,495		
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Town of Denton, Maryland Statement of Activities Year Ended June 30, 2014

Net (Expense) Revenue and **Program Revenues Changes in Net Position** Capital **Primary Government** Operating **Grants and Grants and** Governmental **Business-type** Charges for Services Contributions Contributions Activities Activities **Functions/Programs Expenses** Total Primary government: Governmental activities: General government 385,934 44,700 529,371 188,137 188,137 Public safety 1,770,901 45,360 106,180 (1,619,361) (1,619,361) Public works 537,308 11,675 (525,633)(525,633)Recreation and culture 267,831 5,172 (262,659)(262,659)Urban development and housing 188,841 72,636 1,750 (114,455)(114,455)Economic development 52,043 (52,043)(52,043)88,419 (88,419) Interest on long-term debt (88,419)Retirement payment 17,577 (17,577)(17,577) Total governmental activities 3,308,854 179,543 637,301 (2,492,010) (2,492,010) Business-type activities: 79,597 Water 543.357 622.954 79.597 961,330 20,000 Sewer 1,306,018 (324,688)(324,688)1,584,284 20,000 1,849,375 (245,091)(245,091) Total business-type activities **Total primary government** 1,763,827 657,301 (2,492,010) (245,091) (2,737,101) General revenues: Property taxes 2,498,705 2,498,705 Other taxes 389,568 389,568 Interest income 1,726 517 2,243 Miscellaneous income 474,397 474,397 Total general revenues 3,364,396 517 3,364,913 Change in net position 872,386 (244,574)627,812 Net position - beginning 12,075,358 12,803,325 24,878,683

12,947,744

12,558,751

25,506,495

Net position - ending

Town of Denton, Maryland Balance Sheet - Governmental Funds June 30, 2014

			Capital					
		lm	provement		N	lonmajor		Total
			Special	Business	Gov	vernmental	Go	vernmental
	General	1	Projects	Loan		Funds		Funds
Assets								
Cash and cash equivalents	\$ 1,538,291	\$	-	\$ 572,323	\$	280,783	\$	2,391,397
Receivables:								
Taxes	34,076		-	-		-		34,076
Loans	-		-	818,112		-		818,112
Other receivables	4,216		-	1,662		-		5,878
Due from other funds	244,646		-	-		-		244,646
Due from other governments	 71,541		30	-		13,820		85,391
Total assets	\$ 1,892,770	\$	30	\$ 1,392,097	\$	294,603	\$	3,579,500
Liabilities and fund balances								
Liabilities:								
Accounts payable and								
accrued expenses	\$ 45,976	\$	322	\$ -	\$	1,319	\$	47,617
Due to other funds	-		226,103	-		-		226,103
Unearned revenues	 59,644		-	 812,697		_		872,341
Total liabilities	105,620		226,425	812,697		1,319	_	1,146,061
Fund balances:								
Restricted	-		-	579,400		93,002		672,402
Assigned	275		(226,395)	-		200,282		(25,838)
Unassigned	1,786,875		-	_		_		1,786,875
Total fund balances	1,787,150		(226,395)	579,400		293,284		2,433,439
Total liabilities and								
fund balances	\$ 1,892,770	\$	30	\$ 1,392,097	\$	294,603	\$	3,579,500

Town of Denton, Maryland Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position June 30, 2014

Amounts reported for governmental activities in the Statement of Net Position are different because:

Ending fund balance - governmental funds

\$ 2,433,439

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:

Land and construction in progress

\$ 1,678,601

Depreciable assets, net

11,433,669

13,112,270

Other long-term revenues are not available to pay for current-period expenditures and, therefore, are unearned in the funds.

Unearned revenues

812,697

Land held for resale

366,520

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.

(3,777,182)

Net position of governmental activities

\$ 12,947,744

Town of Denton, Maryland Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds Year Ended June 30, 2014

_	Capital Improveme Special General Projects		Business Loan	Nonmajor Governmental Funds	Total Governmental Funds		
Revenues		_	_				
Taxes	\$ 2,763,220	\$ -	\$ -	\$ 138,265	\$ 2,901,485		
Licenses and permits	36,100	-	-	17,448	53,548		
Revenue from other agencies	108,417	778,884	-	2,343	889,644		
Service charges	17,676	-	-	-	17,676		
Miscellaneous	184,835	29,122	117,122	3,943	335,022		
Total revenues	3,110,248	808,006	117,122	161,999	4,197,375		
Expenditures							
Current:							
General government	335,474	-	-	-	335,474		
Public safety	1,573,621	-	-	-	1,573,621		
Public works	337,747	-	-	- 121,584			
Recreation and culture	55,507	-	-				
Urban development and							
housing	43,948	7,021	14,758	-	65,727		
Pension retirement payment	17,577	-	-	-	17,577		
Capital outlay and projects	174,157	1,238,333	-	95,565	1,508,055		
Debt service - principal	124,037	-	25,959	40,676	190,672		
Debt service - interest	30,640		5,879	51,900	88,419		
Total expenditures	2,692,708	1,245,354	46,596	309,725	4,294,383		
Excess (deficiency) of revenues							
over (under) expenditures	417,540	(437,348)	70,526	(147,726)	(97,008)		
Other financing sources (uses)							
Transfers in	10,000	59,592	-	124,360	193,952		
Transfers out	(137,360)	(46,592)	(10,000)	-	(193,952)		
Note and capital lease proceeds	89,500	-	-	77,831	167,331		
Total other financing sources							
(uses), net	(37,860)	13,000	(10,000)	202,191	167,331		
Net change in fund balances	379,680	(424,348)	60,526	54,465	70,323		
Fund balance - beginning	1,407,470	197,953	518,874	238,819	2,363,116		
Fund balance - ending	\$ 1,787,150	\$ (226,395)	\$ 579,400	\$ 293,284	\$ 2,433,439		

Town of Denton, Maryland Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2014

Amounts reported for governmental activities in the Statement of Activities are different because:

t change in fund balances - total governmental funds	\$ 70,323
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the detail of the two components:	
Capital outlay	1,387,634
Depreciation expense	(593,861)
The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This amount is the net effect of these differences in the treatment of long-term debt and related accounts.	
Totaloa accounte.	
Issuance of long-term debt	(167,331)
	(167,331) 190,672

current financial resources are not reported in the funds

Change in net position of governmental activities

(16, 134)

872,386

Town of Denton, Maryland Statement of Revenues, Expenditures and Changes in Fund Balances Budget and Actual - General Fund Year Ended June 30, 2014

	Original Final Budget Budget		Actual	Variance Positive (Negative)
Revenues				
Taxes	\$ 2,594,736	\$ 2,688,705	\$ 2,763,220	\$ 74,515
Licenses and permits	16,900	36,500	36,100	(400)
Revenue from other agencies	89,937	138,165	108,417	(29,748)
Service charages	20,600	20,600	17,676	(2,924)
Miscellaneous	213,070	170,923	184,835	13,912
Total revenues	2,935,243	3,054,893	3,110,248	55,355
Expenditures				
Current:				
General government	795,761	805,549	415,056	390,493
Public safety	1,675,812	1,760,354	1,630,147	130,207
Public works	381,547	372,337	375,796	(3,459)
Recreation and culture	63,138	64,887	55,507	9,380
Urban development and housing	76,000	68,517	43,948	24,569
Pension retirement payment	17,577	17,577	17,577	-
Debt service	156,554	153,917	154,677	(760)
Total expenditures	3,166,389	3,243,138	2,692,708	550,430
Excess(deficiency) of revenues				
over (under) expenditures	(231,146)	(188,245)	417,540	605,785
Other financing sources (uses)				
Transfers in	27,000	10,000	10,000	-
Transfers out	(124,360)	(133,360)	(137,360)	(4,000)
Note and capital lease proceeds	440,000	440,000	89,500	(350,500)
Expense reserve	(111,494)	(128,395)	-	128,395
Total other financing sources (uses), net	231,146	188,245	(37,860)	(226,105)
Net change in fund balances	\$ -	\$ -	379,680	\$ 379,680
Fund balance - beginning			1,407,470	
Fund balance - ending			\$ 1,787,150	

Town of Denton, Maryland Statement of Net Position - Proprietary Funds June 30, 2014

	-	nter	:	Sewer	In	ndustrial Park	
	Fu	nd		Fund	Fund		 Total
Assets							
Current assets:							
Cash and cash equivalents	\$ 4	72,054	\$	269,254	\$	15,921	\$ 757,229
Receivables:							
Service charges	1-	46,118		246,887		-	393,005
Notes receivable		-		-		15,552	15,552
Due from other funds		-		337,996		-	 337,996
Total current assets	6	18,172		854,137		31,473	 1,503,782
Noncurrent assets:							
Land held for resale		-		-		455,171	455,171
Capital assets, net	2,9	94,238	10	0,776,591		-	13,770,829
Total noncurrent assets	2,9	94,238	10	0,776,591		455,171	14,226,000
Total assets	3,6	12,410	1	1,630,728		486,644	15,729,782
Liabilities							
Current liabilities:							
Accounts payable and accrued expenses		7,551		12,980		-	20,531
Due to other funds	3	37,996		-		18,543	356,539
Bonds and notes payable		14,935		123,905			 138,840
Total current liabilities	3	60,482		136,885		18,543	515,910
Noncurrent liabilities:							
Accrued vacation and sick leave		18,477		29,392		_	47,869
Bonds and notes payable		34,799		1,203,603		368,850	2,607,252
Total noncurrent liabilities		53,276		1,232,995		368,850	2,655,121
Total liabilities		13,758		1,369,880		387,393	3,171,031
Net position							
Net investment in capital assets	1,9	44,504	Ç	9,449,083		_	11,393,587
Restricted		-		-		86,321	86,321
Unrestricted	2	54,148		811,765		12,930	1,078,843
Total net position	\$ 2,1	98,652	\$ 10	0,260,848	\$	99,251	\$ 12,558,751

Town of Denton, Maryland Statement of Revenues, Expenses, and Changes in Fund Net Position - Proprietary Funds Year Ended June 30, 2014

	Enterprise Funds								
		Water Fund		Sewer Fund	In	dustrial Park Fund		Total	
Operating revenues									
Charges for services, net	\$	614,844	\$	644,385	\$	-	\$	1,259,229	
Vacant lots/MD313 special assessments		-		200,767		-		200,767	
Other revenues		8,110		116,178		_		124,288	
Total operating revenues		622,954		961,330		-		1,584,284	
Operating expenses									
Salaries and wages		159,215		284,091		-		443,306	
Fringe benefits		89,391		151,323		_		240,714	
Materials and supplies		3,896		8,115		_		12,011	
Electric and telephone		38,637		97,446		_		136,083	
Automotive expenses		10,045		17,115		_		27,160	
Professional services		13,366		12,109		_		25,475	
Repairs and maintenance		48,156		27,085		_		75,241	
Depreciation		89,281		440,278		_		529,559	
Other operating expenses		53,096		252,140		-		305,236	
Total operating expenses		505,083		1,289,702		-		1,794,785	
Operating income (loss)		117,871		(328,372)				(210,501)	
Nonoperating revenues (expenses)									
Interest income		205		298		14		517	
Grant revenue		-		20,000		-		20,000	
Interest expense		(38,274)		(16,316)				(54,590)	
Total nonoperating revenues (expenses), net		(38,069)		3,982		14		(34,073)	
Income (loss) before transfers		79,802		(324,390)		14		(244,574)	
Transfers in		26,000		15,465		-		41,465	
Transfers out		(15,465)		(26,000)				(41,465)	
Change in net position		90,337		(334,925)		14		(244,574)	
Total net position - beginning		2,108,315		10,595,773		99,237		12,803,325	
Total net position - ending	\$	2,198,652	\$	10,260,848	\$	99,251	\$	12,558,751	

Town of Denton, Maryland Statement of Cash Flows- Proprietary Funds Year Ended June 30, 2014

	Enterprise Funds							
					lr	dustrial		
		Water		Sewer		Park		
	Fund			Fund		Fund		Total
Operating activities								
Cash received from customers	\$	616,100	\$	942,504	\$	2,170	\$	1,560,774
Cash paid to vendors	Ψ	(167,255)	Ψ	(440,344)	Ψ	(390)	Ψ	(607,989)
Cash paid to veridors Cash paid to employees		(249,234)		(440,831)		(390)		
						4 700		(690,065)
Net cash provided by operating activities		199,611		61,329		1,780		262,720
Noncapital financing activities								
Operating transfers in (out)		(4,126)		4,126		-		-
Operating grants		-		20,000		-		20,000
Net cash provided by (used in) noncapital								
financing activities		(4,126)		24,126		-		20,000
Capital and related financing activities		(N		(,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,				(= , ===)
Interest paid		(38,274)		(16,316)		-		(54,590)
Payment on notes payable		(14,219)		(74,696)		-		(88,915)
Acquisition of capital assets		(6,425)		(128,942)				(135,367)
Net cash used in capital and		(=0.040)		(0.4.0.0.5.4)				(070 070)
related financing activities		(58,918)		(219,954)				(278,872)
Investing activities								
Interest received		205		298		14		517
Net cash provided by investing activities		205		298		14		517
. , ,								
Net increase (decrease) in cash and								
cash equivalents		136,772		(134,201)		1,794		4,365
Cash and cash equivalents								
Beginning of year		335,282		403,455		14,127		752,864
Degining of year	_	000,202		400,400		17,121		702,004
End of year	\$	472,054	\$	269,254	\$	15,921	\$	757,229
Reconciliation of operating income (loss)								
to net cash provided by operating activities								
	\$	117,871	\$	(328,372)	Ф		\$	(210 501)
Operating income (loss) Adjustments to reconcile operating income (loss)	φ	117,071	φ	(320,372)	\$	-	φ	(210,501)
to net cash provided by operating activities:								
Depreciation expense		89,281		440,278				529,559
Change in assets and liabilities:		09,201		440,276		-		329,339
(Increase) decrease in accounts receivable		(6.954)		(19 926)		2 170		(22 510)
Decrease in accounts payable and		(6,854)		(18,826)		2,170		(23,510)
accrued expenses		(50)		(26,821)		(390)		(27 270)
Increase in accrued sick leave		(59) (628)		(4,930)		(390)		(27,270) (5,558)
ilicicase ili acciucu sick ieave		(020)		(4,830)				(5,558)
Net cash provided by operating activities	\$	199,611	\$	61,329	\$	1,780	\$	262,720
			-					

Note 1 – Summary of significant accounting policies

The Town of Denton, Maryland (the "Town") began as a tiny settlement on the Choptank River about 1781 and quickly became a trade center for a wide agricultural area. Today, the Town serves as the seat of Caroline County and provides a range of municipal services, including general administration, public safety, economic and community development, street maintenance and sanitation, and water and wastewater utilities.

The financial statements of the Town conform to accounting principles generally accepted in the United States of America (GAAP) applicable to government units promulgated by the Governmental Accounting Standards Board (GASB). The following is a summary of the more significant policies:

A. The financial reporting entity

The Town's financial reporting entity is defined in accordance with GAAP, which defines the distinction between the town as a Primary Government and any related entities. As the Town has no entities for which it is financially accountable and meet the definition of a Component Unit under GAAP, these financial statements only present the Town as the Reporting Entity.

B. <u>Financial statement presentation</u>

The accounting and reporting policies of the Town included in the accompanying basic financial statements conform to GAAP, which requires the following reporting presentation:

Government-wide and Fund Financial Statements

The basic financial statements include both government-wide (based on the Town as a whole) and the fund financial statements, including the major individual funds of the governmental funds (e.g., General, Special Projects) and proprietary funds (e.g., Water, Sewer). Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type.

Government-wide statements

In the government-wide Statement of Net Position, both the governmental and business-type activities columns (a) are presented on an aggregated basis by column and (b) are reflected on a full accrual, economic resource basis, which incorporates long-term assets as well as long-term debt and obligations. Each presentation provides valuable information that can be analyzed and compared (between years and between governments) to enhance the usefulness of the information. The government-wide Statement of Activities reflects both the gross and net cost per functional category (e.g., Public Safety, Public Works) that are otherwise being supported by general government revenues (e.g., property, sales and use taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by directly related program revenues, operating and capital grants, and contributions. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and grants and contributions that are restricted to meeting the operation or capital requirements of a particular function or segment. Taxes and other items not specifically restricted to the various programs are reported as general revenues. Operating grants presented include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capitalspecific grants.

Note 1 – Summary of significant accounting policies (continued)

Fund financial statements

In the fund financial statements, financial transactions and accounts of the Town are organized on the basis of funds. The operation of each fund is considered to be an independent fiscal and separate accounting entity, with a self-balancing set of accounts recording cash and/or other financial resources together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. GAAP sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and proprietary combined) for the determination of major funds. The non-major fund is shown in a single column in the fund financial statements. The governmental fund financial statements are presented on current financial resources and modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. Since the governmental fund financial statements are presented on a different measurement focus and basis of accounting than the government-wide financial statements' governmental activities column, a reconciliation is presented to briefly explain the adjustments necessary to reconcile the fund financial statements to the government-wide financial statements. The various fund categories and fund types presented in the financial statements are as follows:

1. <u>Governmental funds</u> account for the expendable financial resources, other than those accounted for in proprietary funds. The governmental fund measurement focus is based upon determination of financial position and changes in financial position, rather than upon net income determination as would apply to a commercial enterprise. The individual governmental funds are:

<u>General fund</u> (major) accounts for all revenues and expenditures applicable to the general operations of the Town, which are not accounted for in other funds.

<u>Special revenue funds</u> account for the proceeds of specific revenue sources (other than those derived from special assessments, expendable trusts, or dedicated for major capital projects) requiring separate accounting because of legal or regulatory provisions or administrative action. Special Revenue Funds consist of the major Business Loan Fund (loans made to various businesses for economic development) and the non-major Highway Fund (various highway improvement projects).

<u>Capital projects funds</u> accounts for other general capital improvement projects of the Town using the major Special Projects (various economic, urban, and housing development projects) and the non-major Capital Improvement Fund (other projects) to account for the projects.

Note 1 – Summary of significant accounting policies (continued)

Enterprise funds account for operations that are financed in a manner similar to private business enterprises. The proprietary fund measurement focus is based upon determination of net income, financial position, and changes in financial position. Proprietary Funds, all major funds, consist of the Water, Sewer, and Industrial Park Enterprise (accounts for parcels of land purchased by the Town for future development and sale to private businesses) Funds.

The total enterprise fund columns in the proprietary fund Statement of Net Position and Statement of Revenues, Expenses and Changes in Fund Net Position are essentially equal to the business-type activity column in the government wide statements.

Reconciliation of Government-wide and Fund Financial Statements

A summary reconciliation of the difference between total fund balances as reflected on the Governmental Funds' Balance Sheet and total net position for governmental activities as shown on the government-wide Statement of Net Position is presented in a schedule accompanying the Governmental Funds' Balance Sheet. The asset and liability elements, which comprise the reconciliation differences, stem from Governmental Funds using the current financial resources measurement focus and the modified accrual basis of accounting while the government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting. A summary reconciliation of the differences between net change in total fund balances as reflected on the Governmental Funds' Statement of Revenues, Expenditures, and Changes in Fund Balances and the change in net position for governmental activities as shown on the government-wide Statement of Activities is presented within the basic financial statements. The revenue and expense elements, which comprise the reconciliation differences, stem from the governmental funds using the current financial resources measurement focus and the modified accrual basis of accounting while the government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting.

C. Basis of accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, then unrestricted resources as they are needed.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Town considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Real and personal property taxes are recorded as revenues and receivables when available, net of allowances for uncollectible amounts. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Note 1 – Summary of significant accounting policies (continued)

Proprietary fund financial statements are reported using the accrual basis of accounting wherein revenues are recognized in the accounting period in which they are earned, while expenses are recognized in the accounting period in which the related liability is incurred.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. <u>Budgets, budgetary accounting</u>

The following procedures are used by the Town in establishing the budgetary data reflected in the financial statements.

- 1. At or before the first Town Council meeting in April of each year, the Mayor submits to the Town Council a budget for the ensuing fiscal year and an accompanying message.
- 2. The budget shows in detail all estimated income, proposed expenditures for current operations and capital expenditures. Total proposed expenditures cannot exceed the total of estimated income and applied surplus, if any.
- 3. A public hearing is conducted to obtain citizen comments.
- 4. The Town Council adopts the budget on or before June 10. However, if the budget is not adopted by July 1, 1/12 of the current budget can be extended for a 30 day period by majority vote.
- 5. The budget is legally enacted through passage of an appropriations ordinance.
- 6. All budgets are adopted on a basis consistent with GAAP.
- 7. Appropriations lapse at June 30 for all Town departments.
- 8. All budget data presented in the accompanying financial statements is the legally amended or revised budget as of June 30.

E. <u>Allowance for uncollectible accounts</u>

The Town calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. There was no allowance amount at June 30, 2014.

F. Cash and cash equivalents

The Town considers cash and cash equivalents as presented on the balance sheet to be all highly liquid investments with a maturity of three months or less.

Note 1 – Summary of significant accounting policies (continued)

G. Land held for resale

Land held for resale is carried at the lower of cost or net realizable value. Cost includes the original acquisition price and all development costs.

H. Capital assets

Governmental funds: Capital outlays are recorded as expenditures on the governmental fund financial statements and as assets on the government-wide financial statements to the extent the Town's capitalization threshold of \$5,000 is met. In accordance with GAAP, infrastructure has been capitalized retroactively to 1980. Depreciation on capital assets has been recorded over the estimated useful lives using the straight-line method. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Depreciation has been provided over the estimated useful lives using the straight-line method. The useful lives for depreciation purposes are as follows:

Vehicles, furniture and equipment 5-15 years Infrastructure, land improvements and buildings 15-40 years

<u>Proprietary funds:</u> Capital outlays of the proprietary funds are recorded as capital assets on both the fund basis and the government-wide basis. Capital assets are stated at cost or estimated original cost, net of accumulated depreciation. Donated capital assets are recorded at their fair value at the date of receipt. Repairs and maintenance are charged to expense when incurred. When capital assets are sold or retired, the cost of the assets and the related accumulated depreciation are eliminated and a gain or loss is recognized. Depreciation has been provided over the estimated useful lives using the straight-line method. The useful lives for depreciation purposes are as follows:

Machinery and equipment 5-15 years Water and sewer plant systems 10-75 years

I. <u>Vacation and sick pay liability</u>

Town employees earn vacation and sick leave at various rates. Accumulated vacation and half of accumulated sick leave is paid upon termination for all employees with more than five years of service. The current portions are not recorded as liabilities in the governmental fund financial statements until they have matured as a result of employee resignations and retirements. In proprietary funds, both the expenses and the liabilities are recorded as benefits are earned. All vacation pay is accrued when incurred in the government-wide financial statements.

J. Estimates

Management uses estimates and assumptions in preparing its financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities and reported revenues, expenditures and expenses. Actual results could differ from those estimates.

Note 1 – Summary of significant accounting policies (continued)

K. Net Position / Fund Balance

Net Position in government-wide and proprietary financial statements is classified as net investment in capital assets, net of related debt; restricted; and unrestricted. Restricted Net Position represents constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through state statute.

In the governmental fund financial statements, fund balance is composed of five classifications designed to disclose the hierarchy of constraints placed on how fund balance can be spent. The governmental fund types classify fund balances as follows:

Nonspendable Fund Balance – This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. The Town does not have any nonspendable fund balances at June 30, 2014.

Restricted Fund Balance – This classification includes amounts that are restricted to specific purposes externally imposed by creditors or imposed by law.

Committed Fund Balance – Amounts constrained to specific purposes by formal action (adoption of an ordinance) by the government's highest level of decision-making authority (Town Council). Committed amounts do not lapse nor can they be used for any other purpose unless the government takes the same level of action (adoption of another ordinance) to remove or change the constraint.

Assigned Fund Balance – The portion of fund balance that the Town intends to use for specific purposes. Fund balances in the General Fund are assigned by resolution of the Town Council. Fund balances in the other governmental funds are assigned if they are not committed, restricted or nonspendable. Assigned funds lapse at the end of the fiscal year in which they were assigned. With the exception of the General Fund, this is the residual fund balance of the classification of all governmental funds with positive balances.

Unassigned Fund Balance – The portion of the General Fund balance that has not been restricted, committed, or assigned to specific purposes or other funds.

The Town has a revenue spending policy that provides guidance for programs with multiple revenue sources. The Town will use resources in the following hierarchy: bond proceeds, federal funds, state funds, local non-town funds, town funds. For purposes of fund balance classification, expenditures are to be spent from restricted fund balance first, followed in-order by committed fund balance, assigned fund balance and lastly unassigned fund balance. The Treasurer has the authority to deviate from this policy if it is in the best interest of the Town.

Note 1 – Summary of significant accounting policies (continued)

L. <u>Internal and intra-entity activity</u>

In the process of aggregating data for the Statement of Net Position and the Statement of Activities, some amounts reported as interfund activity and balances in the funds have been eliminated or reclassified. Eliminations are made in the Statement of Net Position to minimize the "grossing-up" effect on assets and liabilities within the governmental and business-type activities columns of the Primary Government. Amounts reported in the funds as interfund receivables and payables are eliminated in the governmental and business-type activities columns of the government-wide financial statements, except for net residual amounts due between governmental and business type activities, which are presented as internal balances. Payments from a fund receiving revenue to a fund through which the revenue is to be expended are reported as operating transfers.

M. Change in accounting principles

The following accounting pronouncements became effective and have been implemented by the Town in fiscal year 2014, as applicable. Unless otherwise noted, the adoption of these statements had no material effect on the Town's financial statements.

- GASB Statement No. 65, Items Previously Reported as Assets and Liabilities provides guidance and establishes the accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of recourses, certain items that were previously reported as assets and liabilities. Management has determined that the impacts of this Statement did not have a material effect on the Town.
- GASB Statement No. 67, Financial Reporting for Pension Plans an amendment of GASB Statement No. 25 provides guidance aimed at improving the usefulness of pension information included in the general purpose external financial reports (of state and local governmental pension plans). Management has determined that this Statement was not applicable to the Town.
- GASB Statement No. 70, Accounting and Financial Reporting for Nonexchange Financial Guarantees provides guidance for when an entity receives a nonexchange financial guarantee form another entity which has committed to indemnify the holder of the obligation if the entity or individual that issued the obligation does not fulfill its payment requirements. Management has determined that this Statement was not applicable to the Town.

Note 2 – Deposits and investments

Deposits

At year end the carrying value of the Town's deposits with banks and financial institutions approximated \$262,100 and the bank balance approximated \$527,800. Of this bank balance, all was covered by Federal Depository Insurance and the remaining balance was collateralized in accordance with Article 95, Section 22 of the Annotated Code of Maryland.

Note 2 – Deposits and investments (continued)

Investments

In accordance with the Annotated Code of Maryland and other applicable law, including regulations, the Town's investment policy permits investments in obligations of the United States or agencies thereof, obligations of the State of Maryland, interest-bearing time deposits and savings accounts in any federally insured banks or savings and loans associations in the State of Maryland, repurchase agreements, and the Maryland Local Government Investment Pool.

At June 30, 2014, the Town's deposit and investment balances were as follows:

	!	Fair Value
Maryland local government investment pool	\$	2,687,044
Deposits		262,056
Other investments		199,026
Cash on hand		500
Total cash and investments	\$	3,148,626

<u>Interest rate risk:</u> Given the cash flow needs for operations as well as capital and special projects, it is the Town's policy to maintain the liquidity of its investments. The Local Government Investment Pool is not subject to maturity limits.

<u>Credit risk:</u> The Town's investments in the Local Government Investment Pool are rated AAAm by Standard and Poor's.

Note 3 – Property taxes

By June 10 of each year, the Town Council adopts a budget, effective the following July 1, which establishes the property tax levy for the coming year. Tax bills are due and payable on July 1 and are considered in arrears on the following October 1. Property on which taxes remain unpaid for six months after the original due date is sold at public auction in the manner prescribed by State law.

Note 4 – Accounts receivable and Due from other governments

Receivables at June 30, 2014 consist of the following:

Business										
	(General		Loan		Water		Sewer		Park
Receivables:										
Taxes	\$	34,076	\$	-	\$	-	\$	-	\$	-
Service charges		-		-		146,118		246,887		-
Loans and notes		-		818,112		-		-		15,552
Other		4,216		1,662		-		-		
Total receivables	\$	38,292	\$	819,774	\$	146,118	\$	246,887	\$	15,552

Note 5 – Interfund receivables, payables, and transfers

During the course of normal business operations, the Town has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, or satisfy certain obligations. These transactions are generally reflected as transfers. Interfund receivables and payables represent the lending/borrowing arrangements resulting from the timing of these expenditures versus the receipt of these revenues.

Interfund balances at June 30, 2014, were as follows:

	Interfund Receivables		
General Fund	\$ 244,646	\$	-
Special Projects	_		226,103
Water Fund	-		337,996
Sewer Fund	337,996		-
Industrial Park Fund	-		18,543
Total	\$ 582,642	\$	582,642

Interfund transfers at June 30, 2014, were as follows:

	Tra	Transfers In		ansfers Out	
General Fund	\$	10,000	\$	137,360	
Special Projects Fund		59,592		46,592	
Business Loan Fund		-		10,000	
Highway Fund		124,360		-	
Water Fund		26,000		15,465	
Sewer Fund		15,465		26,000	
Total	\$	235,417	\$	235,417	

Transfers were recorded to reallocate funding for capital projects and cover certain operating expenses during the year.

Note 6 – Capital assets

	Balances July 1, 2013		Additions / Transfers In		Deletions / Transfers Out		Balances ne 30, 2014
Governmental activities:							
Nondepreciable capital assets:							
Land	\$	895,372	\$ -	\$	-	\$	895,372
Construction in progress		1,197,972	1,296,537		(1,711,280)		783,229
Total nondepreciable							
capital assets		2,093,344	1,296,537		(1,711,280)		1,678,601
Depreciable capital assets:							
Land improvements		1,407,950	-		-		1,407,950
Buildings		2,736,266	-		-		2,736,266
Infrastructure		9,611,248	1,705,815		-		11,317,063
Furniture and equipment		474,314	9,846		-		484,160
Vehicles		1,005,572	140,045		-		1,145,617
Total depreciable							
capital assets		15,235,350	1,855,706		-		17,091,056
Less-accumulated depreciation							
Land improvements		(852,978)	(70,750)		-		(923,728)
Buildings		(1,051,908)	(66,160)		-		(1,118,068)
Infrastructure		(2,078,184)	(295,427)		-		(2,373,611)
Furniture and Equipment		(373,694)	(35,310)		-		(409,004)
Vehicles		(706,762)	(126,214)		-		(832,976)
Total accumulated depreciation		(5,063,526)	(593,861)		-		(5,657,387)
Total depreciable capital assets, net		10,171,824	1,261,845		-		11,433,669
Governmental activities							
capital assets, net	\$	12,265,168	\$ 2,558,382	\$	(1,711,280)	\$	13,112,270

	Balances July 1, 2013		Additions / Transfers In	Deletions / ansfers Out	Balances June 30, 2014	
Business-type activities:						_
Nondepreciable capital assets:						
Construction in progress	\$	4,714,483	\$ -	\$ (4,714,483)	\$	-
Total nondepreciable						
capital assets		4,714,483	-	(4,714,483)		-
Depreciable capital assets:						
Municipal water system		4,329,856	-	-		4,329,856
Municipal sewer system		12,221,009	4,843,425	-		17,064,434
Machinery and equipment		349,798	6,425	-		356,223
Total depreciable capital assets		16,900,663	4,849,850	-		21,750,513
Less accumulated depreciation for:						
Municipal water system		(1,257,197)	(85,970)	-		(1,343,167)
Municipal sewer system		(5,890,680)	(436,405)	-		(6,327,085)
Machinery and equipment		(302,248)	(7,184)	-		(309,432)
Total accumulated depreciation		(7,450,125)	(529,559)	-		(7,979,684)
Total depreciable capital assets, net		9,450,538	4,320,291	-		13,770,829
Business-type activities						
capital asets, net	\$	14,165,021	\$ 4,320,291	\$ (4,714,483)	\$	13,770,829

Note 6 – Capital assets (continued)

Depreciation expense was charged to the programs of the Town as follows:

Governmental activities:		
General government	\$	47,599
Public safety		77,533
Public works		76,773
Recreation and culture		216,799
Urban development and housing		123,114
Economic development		52,043
	\$	593,861
Business-type activities:		
Water	¢	00 201
	\$	89,281
Sewer		440,278
	<u>\$</u>	529,559

Note 7 – Long-term obligations

The Town issues general obligation bonds and notes to provide for the acquisition and construction of major capital projects. Repayment of state notes and bonds under governmental activities are funded by the Highway Projects Fund. All other liabilities associated with the governmental activities are liquidated by the General Fund.

Details of the general obligation bonds, capital leases, and notes at June 30, 2014 are as follows:

Description	Amount
Governmental activities:	
State and Federal notes and bonds: \$265,000 issued, Town contractual share of Caroline County CDA Bonds, due in annual installments through May 2017, interest at 5.52%.	\$ 59.333
\$1,240,000 Highway fund share of 5 th Ave project loan issued by USDA, due in monthly installments of \$4,333 until 2052, interest at 3.01%.	1,167,899
\$266,950 issued, Series 2008 Maryland Public Improvement Bonds, due in annual installments through June 30, 2047, interest at 4.38%.	248,616
Total State notes and bonds	1,475,848
Installment notes:	
\$145,000 installment note payable, due in monthly payments of \$806 variable interest at 65% of Prime Rate floating with a floor 2.11% and a ceiling of 2.99% for 15 years.	133,722
\$685,000 installment note payable, due in annual principal payments of \$2,283, variable interest at 65% of Prime Rate floating with a floor 2.11% and a ceiling of 2.99% for 15 years with a 20 year amortization.	653,034
\$750,165 installment note payable, due in annual payments of \$4,583 variable interest at 65% of Prime Rate floating with a floor 2.11% and a ceiling of 2.99% for 15 years with a 20 year amortization.	675,900
\$60,764 installment note payable, financing of two police cars, due in monthly payments of \$1,109 through 2017, interest at 3.56%.	34,710
Total installment notes	1,497,366

Note 7 – Long-term obligations (continued)

Federal notes and loans:

\$750,000 intermediary relending program note, issued by the USDA, of which \$205,000 was drawn down, interest at 1%.	\$ 167,485
Intermediary relending program note, issued by the USDA, of which \$130,000 was drawn down, interest at 5%.	109.366
Intermediary relending program note, issued by the USDA, of which \$150,000 was drawn down, interest at 5%.	130,726
Intermediary relending program note, issued by the USDA, of which \$170,000 was drawn down, interest at 3%.	113,050
Intermediary relending program note, issued by the USDA, of which \$90,000 was drawn down, interest at 5%.	 81,457
Total federal notes and loans Capital leases:	 602,084
\$77,831 lease for tractors and mowers, due in annual installments of \$17,734.40 through November 2017, interest at 6.77%.	60,097
Total governmental activities	 3,635,395
\$500,000 issued, Series 2008 Maryland Public Improvement Bonds, due in annual installments through June 30, 2047, interest at 4.38%.	465,784
\$2,332,577 MDE note issued September 23, 2004, due in semi-annual installments of \$121,589 including interest at 0.4% through February 2024.	1,189,567
\$140,000, Rural Development Loan due in quarterly installments of \$1,892 including interest at 4.5%, through September 2027.	73,980
\$623,560 Water and sewer fund share of 5th Ave project loan issued by USDA, due in monthly installments of \$2,233 until 2052, interest at	
3.01%.	601,545
\$53,500 MDE note issued January 28, 2011, due in semi-annual installments including interest at 1.2% through February 2031.	46,366
State Industrial Park note:	
\$370,000 State note to be repaid from net proceeds of the sale of lots in the new industrial park after the first \$125,000 is retained by the Town. All proceeds in excess of that is to go towards the repayment which is	
due August 2020, no interest.	 368,850
Total business-type activities	\$ 2,746,092

Note 7 – Long-term obligations (continued)

Annual requirements to amortize long-term debt and related interest are as follows:

Governmental Activities

Year Ending	State Notes & Bonds			Installment Notes				 Federal Not	es an	d Loans	
June 30	Principal		Interest	Principal			Interest	Principal		Interest	
2015	\$ 39,812	\$	49,152	\$	104,333	\$	53,743	\$ 23,084	\$	21,305	
2016	41,622		47,393		104,777		51,090	23,835		20,554	
2017	41,414		45,521		101,803		48,166	24,616		19,772	
2018	22,580		43,559		92,068		45,370	25,430		18,958	
2019	23,324		42,815		92,068		42,578	26,278		18,110	
2020-2024	128,694		202,001		460,339		171,137	145,403		76,539	
2025-2029	151,469		179,227		541,978		119,056	163,913		49,304	
2030-2034	178,402		152,295		-		-	142,426		20,150	
2035-2039	210,278		120,418		-		-	27,099		1,331	
2040-2044	248,048		82,882		-		-	-		-	
2045-2049	265,135		39,087		-		-	-		-	
2050-2052	125,070		4,920		-		-	 -		-	
Total	\$ 1,475,848	\$	1,009,270	\$	1,497,366	\$	531,140	\$ 602,084	\$	246,022	

Business-type Activities

Year Ending	General Obligation Notes					Other	No	Notes		
June 30	Principal			Interest		Principal		Interest		
2015	\$	138,840	\$	46,620	\$	-	\$	-		
2016		140,090		45,370		-		-		
2017		141,372		44,088		368,850		-		
2018		142,688		42,770		-		-		
2019		144,038		41,422		-		-		
2020-2024		741,766		185,535		-		-		
2025-2029		151,897		151,358		-		-		
2030-2034		146,656		125,783		-		-		
2035-2039		169,047		97,345		-		-		
2040-2044		203,323		63,071		-		-		
2045-2049		193,093		23,848		-		-		
2050-2052		64,432		2,536		-		-		
Total	\$	2,377,242	\$	869,747	\$	368,850	\$	-		

Note 7 – Long-term obligations (continued)

Capital leases

The Town leases certain equipment under capital lease agreements. Future minimum lease payments are as follows:

2015	\$ 17,734
2016	17,734
2017	17,734
2018	 17,734
Total	70,938
Less interest	 10,841
Net	\$ 60,097

The following is a summary of changes in long-term liabilities of the Town for the year ended June 30, 2014:

		Balance						Balance	Dι	ue Within	
	Ju	ıly 1, 2013	Α	Additions		Reductions		June 30, 2014		One Year	
Governmental activities:											
State notes and bonds	\$	1,513,872	\$	-	\$	38,024	\$	1,475,848	\$	39,812	
Installment notes		1,531,035		89,500		123,169		1,497,366		104,333	
Federal loans and notes		624,449		-		22,365		602,084		23,084	
Capital lease		1,787		77,831		19,521		60,097		13,537	
Compensated absences		142,871		82,530		83,614		141,787		_	
Total	\$	3,814,014	\$	249,861	\$	286,693	\$	3,777,182	\$	180,766	
Business-type activities:											
Notes and bonds	\$	2,835,007	\$	-	\$	88,915	\$	2,746,092	\$	138,840	
Compensated absences		53,427		27,863		33,421		47,869			
	_						_		_		
Total	\$	2,888,434	\$	27,863	\$	122,336	\$	2,793,961	\$	138,840	

Operating leases

The Town leases certain equipment under operating lease arrangements. Future minimum lease payments are:

2015	\$ 11,540
2016	3,483
2017	3,483
2018	 290
Total	\$ 18,796

Note 8 – Retirement plan and Other Post-Employment Benefits

Effective July 1, 2001, the Town elected to participate in the statewide contributory system of the State of Maryland. The State Retirement Agency (the Agency) is the administrator of the System, a cost sharing multiple-employer public employee retirement system. The System was established by the State Personnel and Pension Articles of the Annotated Code of Maryland Rules and Regulations and provides retirement allowances to System members and beneficiaries.

Members may retire with full benefits after completing thirty years of eligible services regardless of age or at age sixty-two or older with specified years of service. On retirement from service, a member shall receive an annual service retirement allowance based on the member's average final compensation and years of creditable service. A member may retire with reduced benefits after attaining age fifty-five and completing fifteen years of eligible service.

The System issues a publicly available financial report that includes disclosures regarding: actuarial value of assets; total actuarial accrued liability; unfunded actuarial accrued liability, if any; and funded liability ratio. This report may be obtained from the Maryland State Retirement and Pension System, 301 West Preston Street, Baltimore, Maryland 21201.

<u>Funding policy</u>. Town employees contribute 7% of their gross employee compensation. Required contributions not funded by employee contributions are funded entirely by the Town. Employer contributions are based upon salaries for the preceding fiscal year. The Town's contribution for fiscal year 2014 was based on the salaries for the year ended June 30, 2012. The Town also is required to pay a special accrued liability to cover the cost of the past service liability that has been brought into the system. The Town paid \$227,111 in fiscal year 2014. Annual payments in future years will increase by 5% per year through December 2020.

Contributions for the fiscal year ended June 30, 2014 and two preceding years were equal to the actuarially determined amounts as follows:

	Ju	ne 30, 2014	Ju	ne 30, 2013	Jui	ne 30, 2012
Total covered payroll	\$	1,392,253	\$	1,329,392	\$	1,415,744
Employer normal contributions		139,226		119,512		154,883
Employer special accrued liability		87,885		83,700		79,714
Employer contribution percentage		100%		100%		100%

The Town administers the Employee Benefits Plan of the Town of Denton, a voluntary defined contribution plan, to accept employee contributions. The Town does not contribute to this plan.

The Town does not have a plan in place for other post-employment benefits; therefore, no related liability has been recorded.

Note 9 – Risk management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Property and liability coverage is provided through third party insurance. The Town carries a broad range of insurance coverages, which management considers prudent for the protection of the Town's assets and operations. Coverages currently include \$2,000,000 commercial general liability, \$1,000,000 automobile liability, and \$1,000,000 public officials' liability. The property policy provides insurance coverage for all of the Town's real and personal property up to the replacement cost value of the asset.

Note 10 – Contingent liabilities – Community Legacy Program

The Town participates in the State of Maryland Community Legacy Program, from which the Town receives funds to invest in older neighborhoods and to support revitalization plans in business districts. The payments are in the form of an interest free note, repayment from which comes from either future sales of properties that have been rehabilitated, or any other payments received relating to the property. The Town has applied, and will continue to apply for a deferral of any principal payment, and expects that the loans will either be forgiven or only paid when properties are sold. Total payments received to date under this program are \$385,500.

Note 11 - Subsequent events

The Town has evaluated subsequent events through October 31, 2014 in connection with the preparation of these financial statements, which is the date the financial statements were to be issued and no additional information is required to be disclosed.

Town of Denton, Maryland Combining Balance Sheet - Nonmajor Governmental Funds June 30, 2014

		Capital provement	Н	lighway Fund	Total onmajor vernmental Funds
Assets					
Cash and cash equivalents	\$	200,282	\$	80,501	\$ 280,783
Due from other governments				13,820	13,820
Total assets	\$	200,282	\$	94,321	\$ 294,603
Liabilities and fund balances Liabilities: Accounts payable and accrued expenses Total liabilities	\$	<u>-</u>	\$	1,319 1,319	\$ 1,319 1,319
Fund balances: Restricted Assigned		200,282		93,002	93,002
Total fund balances				03.003	
Total fullu balarices	-	200,282		93,002	 293,284
Total liabilities and fund balances	\$	200,282	\$	94,321	\$ 294,603

Town of Denton, Maryland Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds Year Ended June 30, 2014

	Capital Improvement			lighway Fund	Total Nonmajor Governmental Funds		
Revenues							
Taxes	\$	-	\$	138,265	\$	138,265	
Licenses and permits		17,448		-		17,448	
Revenue from other agencies		-		2,343		2,343	
Miscellaneous		107		3,836		3,943	
Total revenues		17,555		144,444		161,999	
Expenditures							
Current:							
Public works		-		121,584		121,584	
Capital outlay and projects		-		95,565		95,565	
Debt service - principal		-		40,676		40,676	
Debt service - interest		_		51,900		51,900	
Total expenditures		-		309,725		309,725	
Excess (deficiency) of revenues over							
(under) expenditures		17,555		(165,281)		(147,726)	
Other financing sources							
Capital lease proceeds		-		77,831		77,831	
Transfers in		-		124,360		124,360	
Total other financing sources		-		202,191		202,191	
Net change in fund balances		17,555		36,910		54,465	
Fund balance - beginning		182,727		56,092		238,819	
Fund balance - ending	\$	200,282	\$	93,002	\$	293,284	

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues				
Taxes:				
Real estate tax	\$ 2,360,292	\$ 2,387,288	\$ 2,387,764	\$ 476
Railroad and public utilities	43,000	44,000	44,039	39
Corporation	76,000	144,423	146,336	1,913
Tax interest and penalties	7,700	12,200	18,641	6,441
Abatements (tax)	(81,300)	(90,750)	(85,013)	5,737
Income tax	184,544	184,544	243,381	58,837
Admission and Amusement tax	1,500	3,500	4,342	842
Hotel tax	3,000	3,500	3,730	230
Total taxes	2,594,736	2,688,705	2,763,220	74,515
Licenses and permits:				
Traders license	9,000	9,000	12,234	3,234
Building and sign permits	7,500	25,000	21,046	(3,954)
Other licenses and permits	400	2,500	2,820	320
Total licenses and permits	16,900	36,500	36,100	(400)
Revenue from Other Agencies:	43,000			
State police aid County Police Safety Grant	6,000	68,000 6,000	65,843 9,085	(2,157) 3,085
Critical areas	1,750	1,750	9,065 1,750	3,000
Other county revenue	31,187	55,215	24,515	(30,700)
Other state revenue	8,000	7,200	7,224	(30,700)
Total revenue from other agencies	89,937	138,165	108,417	(29,748)
Total revenue from other agencies	09,937	130,103	100,417	(29,740)
Service charges:				
Parking fines/meter income	20,600	20,600	17,676	(2,924)
Miscellaneous Income:				
Cable TV franchise fees	21,000	22,606	22,606	-
Water tower/land rental	17,000	16,000	16,075	75
Interest income	800	975	1,438	463
Miscellaneous income	174,270	131,339	144,710	13,371
Post card income	-	3	, 6	3
Total miscellaneous income	213,070	170,923	184,835	13,912
Total revenues	2,935,243	3,054,893	3,110,248	55,355

	Original Budget	Final Budget	Actual	Variance Positive (Negative)	
Expenditures					
General Government:					
General administration: Salaries	\$ 57,048	\$ 57,048	\$ 56,250	\$ 798	
Other operating expenses	\$ 57,046 84,017	92,122	ъ 56,250 79,468	т 796 12,654	
Total general administration	141,065	149,170	135,718	13,452	
rotal general administration	141,000	140,170	100,710	10,402	
Legislative:					
Salaries	15,600	15,600	15,600	-	
Other operating expenses	9,060	11,558	11,330	228	
Total legislative	24,660	27,158	26,930	228	
Elections:					
Salaries	150	100	100	-	
Other operating expenses	2,250	2,113	1,213	900	
Total elections	2,400	2,213	1,313	900	
Financial Administration:					
Salaries	108,311	108,311	104,058	4,253	
Other operating expenses	65,120	68,806	60,927	7,879	
Capital outlay	3,000	1,000	- 101.00-	1,000	
Total financial administration	176,431	178,117	164,985	13,132	
Municipal Building:					
Other operating expenses	61,205	58,891	6,528	52,363	
Capital outlay	390,000	390,000	79,582	310,418	
Total municipal building	451,205	448,891	86,110	362,781	
Total general government	795,761	805,549	415,056	390,493	
Public Safety:					
Police Department:					
Salaries	699,906	701,933	681,915	20,018	
Other operating expenses	548,252	551,632	517,683	33,949	
Capital outlay	67,400	92,107	46,680	45,427	
Total police department	1,315,558	1,345,672	1,246,278	99,394	
·					
Volunteer Fire Company:	0.4.700	0.4.700	0.4.700	(00)	
Other operating expenses	84,700	84,700	84,763	(63)	
Zoning, Codes & Inspection:					
Salaries	133,675	133,675	125,779	7,896	
Other operating expenses	141,879	186,307	163,481	22,826	
Capital outlay		10,000	9,846	154	
Total zoning, codes & inspection	275,554	329,982	299,106	30,876	
Total public safety	1,675,812	1,760,354	1,630,147	130,207	

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Public Works:				
Street sanitation:				
Salaries	\$ 44,238	\$ 44,237	\$ 43,998	\$ 239
Other operating expenses	43,926	32,940	46,187	(13,247)
Capital outlay	50,000	38,049	38,049	
Total street sanitation	138,164	115,226	128,234	(13,008)
Street lighting	78,800	92,528	94,127	(1,599)
Trash collection	163,508	163,508	151,285	12,223
Mosquito spraying	1,075	1,075	2,150	(1,075)
Total public works	381,547	372,337	375,796	(3,459)
Recreation and Culture: Parks and recreation:				
Salaries	28,049	28,049	27,840	209
Other operating expenses	30,889	33,089	24,218	8,871
Total parks and recreation	58,938	61,138	52,058	9,080
Tennis courts:				
Other operating expenses	700	700	400	300
Summerfest:				
Other expense	3,500	3,028	3,028	-
Wheeler Park:				
Project costs		21	21	
Total recreation and culture	63,138	64,887	55,507	9,380
Urban Development and Housing: Community development:				
Other operating expenses	76,000	68,517	43,948	24,569
Retirement payment	17,577	17,577	17,577	_
				,
Debt service	156,554	153,917	154,677	(760)
Total expenditures	3,166,389	3,243,138	2,692,708	550,430
Excess (deficiency) of revenues				
over (under) expenditures	(231,146)	(188,245)	417,540	605,785

	Original Budget		Final Budget		Actual		Variance Positive (Negative)	
Other Financing Sources (Uses)								
Transfers in	\$	27,000	\$	10,000	\$	10,000	\$	-
Transfers (out)		(124,360)		(133,360)		(137,360)		(4,000)
Debt proceeds		440,000		440,000		89,500		(350,500)
Expense reserve		(111,494)		(128,395)		-		128,395
Total other financing sources								
(uses), net		231,146		188,245		(37,860)		(226,105)
Net change in fund balances	\$		\$			379,680	\$	379,680
Fund balance - beginning						1,407,470		
Fund balance - ending					\$	1,787,150		



Report of Independent Auditor on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Council of the Town on Denton Denton, Maryland

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Denton, Maryland (the "Town"), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise of the Town's basic financial statements, and have issued our report thereon dated October 31, 2014. That report recognizes that the Town implemented one new accounting standard effective July 1, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

Cherry Behart CCP

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Richmond, Virginia October 31, 2014